

ALABAMA SECURITIES COMMISSION

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Lee County Man Pleads Guilty to Securities Fraud Charges

MONTGOMERY, ALABAMA (Aug. 23, 2013) Robert T. Treese, District Attorney for the 37th Judicial Circuit, Lee County, Alabama; and Joseph Borg, Director of the Alabama Securities Commission (ASC) announced that John David Stroud, a resident of Auburn, Alabama, pleaded guilty to Investment Fraud, a Class B felony punishable by not less than two years or more than 20 years in prison and a fine of not more than \$30,000, for engaging in a scheme to defraud 12 investors by making misrepresentations about the use of investor funds. Lee County Circuit Court Judge Jacob A. Walker III accepted the plea agreement, which included a sentence recommendation by the state of Alabama Securities Commission and the District Attorney's Office, of 10 years to be served in the state penitentiary and an agreement that restitution of \$2.1 million be paid to the victims. The court set a sentencing date for 10 am on November 18, 2013.

The case was presented by Alabama Securities Commission prosecutors Amanda Senn and Steve Feaga. The case was investigated by Senior Special Agent Kim Lewis and other agents in the Enforcement Division at ASC in close cooperation with District Attorney Treese and his staff. In May, 2012 a Lee County Grand Jury, indicted Stroud on seven counts of investment fraud, two counts of securities fraud, two counts of failing to register with the Alabama Securities Commission, and ten counts of theft by deception. The charges stemmed from Stroud's involvement as the owner/operator of Stroud Capital and his affiliated entities; Stroud Development Group, Stroud Capital Management, LLC, Stroud Capital Fund, LP, TS Capital Partners, LLC, TS Capital Fund, LP, and TS Capital General Partners, LLC. The companies were organized by Stroud for the purpose of accepting investor funds to trade in commodity futures and off exchange foreign currency contracts (forex).

The ASC Enforcement Division investigation, along with information received from the Commodities Futures Trading Commission and the National Futures Association, as well as complaints received from investors revealed that Stroud received approximately \$5.2 million from victims between 2008 and 2012. Stroud convinced these individuals to invest with him by representing to be a successful commodities trader. A former financial advisor, Stroud was able to use his credentials to mislead investors into believing he was a trustworthy custodian of their investment funds. Many of the victims borrowed from their retirement savings in order to invest with Stroud.

While some investor funds were used to purchase a limited amount of commodities, they were primarily used for unauthorized business and personal expenses, and to pay returns to other investors. Stroud's activities ultimately defrauded investors of approximately \$2.1 million. A review of ASC records showed that neither Stroud nor the companies he represented were registered to conduct securities business in Alabama, as required by the Alabama Securities Act.

ASC Director Joseph Borg said, "Financial advisors provide a valuable service to hard-working individuals seeking to plan for the future. When scam artists such as Mr. Stroud abuse their position of

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trust, they betray the public's confidence in the investment advisory industry. This conduct will not be tolerated and today's plea demonstrates the continued efforts of the Alabama Securities Commission and the Lee County District Attorney's Office to investigate and prosecute those who commit these financial crimes."

"We especially want to thank the U.S. Commodities Futures Trading Commission (CFTC) and National Futures Association (NFA) for their invaluable service and assistance in bringing to justice those who threaten the integrity of the industry. Investment fraud schemes can have devastating effects on victims and their families. Many of the victims in this case lost most, if not all, of their retirement savings. While no sentence can completely repair the damage caused to those who trusted Mr. Stroud, we hope that it will send a clear message to scam artists who betray the public and the public's confidence in the investment advisory industry, that punishment will be sure and severe, Borg said."

The ASC cautions potential investors to thoroughly scrutinize and research any investment opportunity or offer. Contact the ASC with inquiries concerning securities broker-dealers, agents, investment advisers, investment adviser representatives, financial planners, registration status of securities or debt management programs, to report suspected fraud or to obtain consumer information. The ASC provides free investor education and fraud prevention materials in print, on our website and through educational presentations upon request.

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